

Product Oversight, Governance and Fair Value Assessment

Background

Shepherds Friendly are a manufacturer of pure protection insurance products (relating to our Income Protection and Over 50s Life Insurance). Following the Financial Conduct Authority's (FCA's) fair value rules (PS21/5) there are regulatory requirements for us to maintain and operate an approval and review process of our products. Part of this process requires the manufacturer to ensure that the product provides fair value to customers in the target market.

As a mutual society, we are committed to providing our membership with genuine value through plans that are fair and honest. In compliance with the FCA's new product oversight and governance requirements, we now have in place a framework covered by our Product Oversight and Governance Policy.

Shepherds Friendly will carry out annual assessments on all pure protection products based on the target market, and product value will be determined on product design, risk and costs, distribution, data, and testing.

Shepherds Friendly pure protection plans, from across our product groups, have been assessed by the Society's Fair Member Benefit Committee, Risk and Compliance team, and Chief Actuary. Following the audit, the Executive Directors and Board have found no evidence of any plans delivering unfair value to members and they approved the Product Oversight and Governance Policy to ensure we continue to meet the needs of our target market and members.

Product information and target markets

The following table sets out the main features of our fair value assessments for live products. Further details on the features and benefits of the products can be provided by our Business Development team.

Fair value assessment		Over 50s Life Insurance	Income Protection Insurance	
Target market	Define and document the group of customers sharing common characteristics at an abstract and generalised level in order to enable the manufacturer to adapt the features of the product to the needs, characteristics and objectives of that group of customers	The plan is available to anybody aged 50 to 80. The Society's preferred target market is for non-smokers and those aged 60-70 and with premiums around £20-£30 a month. Not suitable for those who: •Already have adequate insurance elsewhere. •Customers have a pre-paid funeral plan and have money set aside for family already.	Individuals who are either self-employed or have insufficient sickness pay benefit from their employer. Policyholders categorised by product generation and custom features (cover period, waiting period, indexation option). Product literature updated for each.	
Product Value	Design, Risk and Costs	<p>Define and document the core product risk transfer from the customer to the primary insurer, the reasonably foreseeable period the risk transfer applies, plus any other benefits for the customer that attached to the product.</p> <p>Define and document the difference between the risk price of the product and the total price paid by the customer. Document why the expected difference is fair to the customer / target market. Price the individual elements that make up the expected total cost paid by the customer. For example, the pricing model risk premium, additional add-on benefit costs, details of how premium and benefits may change over time and the cost of distribution.</p>	<p>The product pays the sum assured in the event of death once in force for two years or more. In the event of death within two years, the policyholder's estate gets 1½ times the premiums paid.</p> <p>Should the average policyholder at inception pay premiums beyond age 85 it is likely that they will end up paying more in premiums than the benefits payable. For policyholders aged 60 at entry, the average life expectancy of claimants is expected to be around ten years for non-smokers (less for smokers). Accordingly, most claimants are expected to get value from the policy.</p> <p>Policyholders will not have to continue paying premiums when they have paid premiums for 30 years or after the age of 90, whichever comes first.</p> <p>Premiums reflect underlying risk characteristics of Over 50s business.</p> <p>The latest product return assessment (June 2022 FMBC) estimates the internal rate of return on this plan to be within normal return parameters.</p>	<p>Claimants receive a benefit in the event they are incapacitated. These benefits can exceed the premiums paid on the plan.</p> <p>Premiums increase with age, attained reflecting the expected underlying risk profile.</p> <p>Future premium increases are known by the customer at the onset of the plan and are not reset annually. Premiums are priced to be competitive in the 30-40 years old customer age range.</p> <p>Unexpected death benefit, Career Break option, Virtual GP, and discounted Nuffield Health gym membership are all features added without additional cost</p> <p>Indexation of premium and benefit option offered to customers.</p> <p>The latest product return assessment (June 2022 FMBC) estimates the internal rate of return on this plan to be within normal return parameters.</p> <p>Eligibility for cover is determined by an applicant's full health, lifestyle and medical history. A simplified application can also be offered for eligible applications which is based on moratorium underwriting.</p>
	Distribution	Define and document the methods of the distribution for the product in question. Demonstrate that distribution routes and costs do not adversely affect the fair value of the product.	Single pricing generally across all distribution. Distributor cannot change price.	Single pricing across all distribution. Some channels receive different distribution costs, but this does not affect the value of the product.
	Data	Define and document all the necessary and appropriate data and information used to value the product. For example, customer research, public information, expected claims experience and complaints data.	<p>Profitability assessments based on Solvency II valuation methodology.</p> <p>Complaint reporting and management information is considered at the appropriate authority levels.</p>	<p>Annual experience analysis takes full account of historic experience (claim inception rates, termination rates etc.). To establish if future premiums are expected to cover the cost of future benefits.</p> <p>Complaint reporting and management information is considered at the appropriate authority levels.</p> <p>Intermediary call monitoring.</p>
	Testing	Before bringing to market or significantly adapting it, or in case the target market has significantly changed. Testing needs to assess whether the product over its lifetime meets the identified needs, objectives and characteristics of the target market.	<p>Random selection across all age bands and premium ranges to check the correct sum assured is calculated based on the Actuarial tables provided.</p> <p>Check commission rates applied are as agreed.</p> <p>Confirm commission rates cannot be amended by the arranger(s).</p>	<p>Profitability analysis involves stress testing (with profitability being a metric of value provided). Monitoring of sales demographics ensures target market reached.</p> <p>Expense allocation exercise conducted annually to ensure charges remain fair.</p> <p>Reserves assessed annually to avoid excessive reserves; competitive market would not allow overcharging.</p>